

Hong Kong

Despite the imminent change of government in Hong Kong on July 1, 1997, steady economic growth and expansion of agricultural imports continued in 1996 and are projected for the future. [Carolyn L. Whitton (202) 219-0825]

Government Change Imminent in Hong Kong

On July 1, 1997, Hong Kong's Government leadership and administrative personnel will change as Hong Kong officially becomes a Special Administrative Region (SAR) of the People's Republic of China. But under the 1984 joint Sino-British agreement, Hong Kong also is scheduled to maintain its free-port status and its commercial autonomy for 50 more years. As long as this is the case, Hong Kong's stable economic and agricultural import growth is likely to continue into the future.

After July 1, China will administer two Customs regimes, its own and Hong Kong's. And Hong Kong's exports to China will continue to face China's import duties for another 50 years, while China's exports to Hong Kong continue to reap the benefits of Hong Kong's free-port status. Hong Kong has no customs duties on most imports, only a 0.0035-percent declaration charge and small luxury duties on products such as alcoholic beverages and tobacco.

Economic Growth Continued Strong in 1996

Hong Kong's economic growth continues strong, promoting agricultural imports. Hong Kong's 1996 Gross Domestic Product (GDP) is estimated to have reached nominal \$155 billion, a real rate of growth of 4.7 percent over 1995, the same as 1995's expansion over 1994. While this is not the fastest economic growth among the rapidly expanding Asian economies, nevertheless it represents a healthy economy. The unemployment rate declined slightly and business confidence and investment remained relatively stable, despite the imminent new government.

Population continued to expand at an average annual rate of 1.9 percent to exceed 6.3 million people. Real per capita GDP growth slowed from 1995's 3.1 percent to 2.1 percent in 1996. But at 6.5 percent, inflation, represented by the consumer price index, declined from 1995, leaving consumers with more disposable income, and domestic consumption expanded somewhat faster than in 1995.

Agriculture is a minuscule part of Hong Kong's domestic economy. In 1996, agricultural production again accounted for only 0.2 percent of Hong Kong's total GDP.

Agricultural Trade Expanded

Hong Kong's 1996 total merchandise imports reached \$198 billion, up slightly from \$193 billion in 1995, and total exports (including re-exports) climbed to \$181 billion from 1995's \$174 billion. Re-exports accounted for \$153 billion or 85 percent of exports. Thirty-seven percent of Hong Kong's total imports

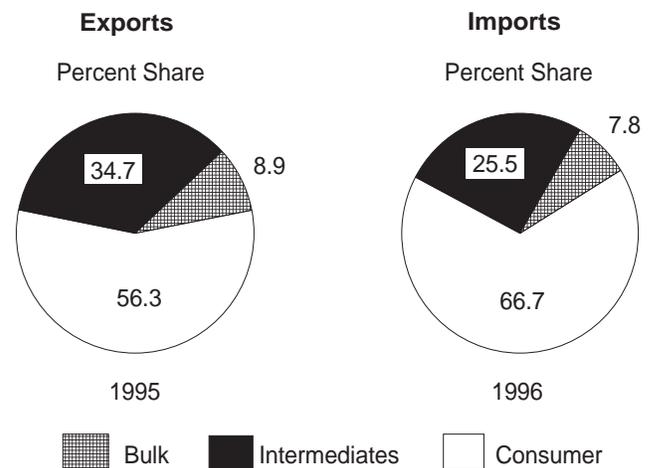
came from China, and a little more than one-third of Hong Kong's re-exports went back to China, about the same share as in 1995.

Its tiny agricultural sector and expanding domestic use leads Hong Kong to be heavily reliant on agricultural imports. The value of its 1996 agricultural imports equaled \$14.2 billion, 3 percent over 1995's \$13.8 billion, while agricultural exports (including re-exports) reached \$7.8 billion, compared with \$7.5 billion in 1995. Agricultural re-exports again accounted for nearly 90 percent of all agricultural exports and amounted to \$7 billion. The structure of Hong Kong's agricultural exports is dominated by consumer-ready goods (56 percent), while intermediate goods accounted for 35 percent. Bulk agricultural exports accounted for 9 percent of the total (figure 20).

But, despite the importance of agricultural imports to Hong Kong's well being, agricultural trade remains a small share of total imports and total exports. In 1996, Hong Kong's agricultural trade accounted for 7 percent of all imports, and just 4 percent of total exports. Consumer-ready agricultural imports accounted for two-thirds of total trade with intermediate products making up 26 percent. Bulk goods accounted for 8 percent of total agricultural imports. Fish dominated Hong Kong's 1996 agricultural imports (table 22). Fruits and vegetables, meats and products, and tobacco followed closely.

Figure 20

Structure of Hong Kong's agricultural trade



Source: Hong Kong Customs Statistics.

Table 22--Hong Kong's calendar year agricultural imports

Commodity	1995	1996
	Million U.S. dollars	
Total agricultural imports	13,797	14,245
Total food & live animals	7,523	8,006
Live animals other	435	439
Meat & preparations	1,380	1,506
Dairy & bird's eggs	479	553
Fish & preparations	1,821	1,913
Cereals & preparations	453	512
Vegetables & fruit	1,628	1,669
Sugar, honey, & preparations	363	358
Coffee, tea, cocoa, & spices	242	250
Feeding stuff for animals	85	95
Miscellaneous edible products	636	712
Total beverages & tobacco	2,455	2,435
Beverages	1,053	996
Tobacco	1,402	1,439
Total crude materials, inedible*	3,269	3,232
Hides, skins, & furskins, raw	529	615
Oilseeds & oleaginous fruits	37	32
Crude rubber	372	349
Cork & wood	365	461
Pulp & waste paper	35	27
Textile fibers other than wool	1,343	1,188
Other	588	559
Total animal & vegetable oils, fats, & waxes	550	573
Animal oils & fats	11	13
Fixed vegetable fats & oils	517	542
Animal or vegetable fats & oils, processed	21	17

* Excludes fertilizers, minerals, ores, and scrape.

The United States accounted for 10 percent of Hong Kong's 1996 agricultural imports. Imports from the United States equaled \$1.49 billion, less than 1 percent below the \$1.5 billion imported from the United States in 1995, and the second largest of U.S. agricultural exports to Hong Kong since 1989. Hong Kong was the eighth largest market for U.S. agricultural exports in 1996.

At \$459 million, poultry and products again accounted for nearly one-third of U.S. agricultural shipments to the Territory (table 23). Fruits, vegetables, other meats and products, and tobacco accounted for much of the remaining U.S. exports.

Hong Kong's trend towards importing more high-value agricultural products continued as higher incomes encouraged a continued shift towards greater consumption of meats and fruits, both in Hong Kong itself and in neighboring areas of China proper, where much of these imports were re-exported. Continued growth in Western-style restaurants, fast-food chains, tourism, and Western-style supermarkets also contributed to rising demand for high-value agricultural imports.

Hong Kong remains a major hub of activity for regional trade because of its role as a transshipment center. For this reason, Hong Kong's agricultural exports, although not as large as its

Table 23 U.S. calendar year agricultural exports to Hong Kong

Commodity (f.a.s. basis)	1995	1996
	Million U.S. dollars	
Total agricultural exports	1,503	1,490
Animals & animal products	621	685
Meats & meat products	90	115
Poultry & poultry products	433	459
Dairy products	27	40
Hides & skins, incl. furs	61	58
Other animal prods. & live animals	11	12
Grains & feeds	51	44
Wheat, flour & products	13	7
Rice, paddy, milled, & parboiled	1	2
Feed grains & products	3	1
Other grain & feed products	34	34
Fruits & preparations	193	205
Fruits, fresh	166	180
Fruits, dried, canned, frozen & other	27	25
Fruit juices, wine & other beverages	82	77
Nuts & preparations	46	51
Vegetables & preparations	130	176
Vegetables, fresh, frozen, & canned	58	71
Other vegetables, prepared or preserved	71	105
Oilseeds & products	75	66
Oilseeds & meals	18	17
Vegetable oils	56	49
Tobacco, unmanufactured	34	19
Cotton & linters	134	42
Sugar & tropical products	39	38
Sugar & other tropical products	12	12
Coffee, cocoa, & chocolate	12	15
Tea	15	12
Other miscellaneous vegetable products	72	62
All other agricultural products	27	25
Selected non-agricultural exports	208	194
Fertilizer	1	1
Fish & shellfish	46	53
Agricultural chemicals	16	20
Farm machinery	9	7
Tobacco, manufactured	135	113

agricultural imports, still are sizeable, despite its tiny agricultural output. Hong Kong's major agricultural exports in 1996 were tobacco and manufactures; textile fibers other than wool, meats and products, and fruits and vegetables also were important (table 24). And, Hong Kong's agricultural exports to the United States rose nearly 4 percent. Vegetables, processed grain products, and fish exports, again accounted for the majority (table 25).

Outlook for 1997

As long as no alterations are made in the implementation of the joint agreement for Hong Kong to become part of China on July 1, Hong Kong will remain a free-port until the year 2047, and economic growth is expected to continue while the rate of population growth is likely to gradually slow. Gains in per capita GDP ought to keep Hong Kong's demand for agricultural imports strong, and Hong Kong's agricultural imports are expected to continue expanding in 1997 and beyond. Rising incomes and changing diets, both in Hong Kong and in

Table 24--Hong Kong's calendar year agricultural exports

Commodity	1995	1996
	Million U.S. dollars	
Total agricultural exports	7,450	7,813
Total food & live animals	2,742	3,147
Live animals other	14	6
Meat & preparations	410	710
Dairy & bird's eggs	198	222
Fish & preparations	578	583
Cereals & preparations	131	140
Vegetables & fruit	621	686
Sugar, honey, & preparations	187	175
Coffee, tea, cocoa, & spices	156	145
Feeding stuff for animals	52	43
Miscellaneous edible products	395	437
Total beverages & tobacco	2,075	2,173
Beverages	616	520
Tobacco	1,459	1,653
Total crude materials, inedible*	2,302	2,187
Hides, skins, & furskins, raw	254	246
Oilseeds & oleaginous fruits	24	14
Crude rubber	312	293
Cork & wood	272	314
Pulp & waste paper	84	53
Textile fibers other than wool	918	835
Other	438	433
Total animal & vegetable oils, fats, & waxes	331	305
Animal oils & fats	20	13
Fixed vegetable fats & oils	300	283
Animal or vegetable fats & oils, processed	11	8

* Excludes fertilizers, minerals, ores, & scrape.

Table 25--U.S. calendar year imports from Hong Kong

Commodity	1995	1996
	Million U.S. dollars	
Total agricultural imports	93.43	96.86
Animals & products	5.33	5.90
Grains & feeds	10.75	11.36
Oilseeds & products	2.08	1.52
Fruits & preparations	2.53	3.29
Fruit juices	0.39	0.13
Beverages, excluding fruit juice	3.79	5.00
Nuts & preparations	2.41	1.44
Vegetables & preparations	52.33	48.60
Sugar & related products	1.67	2.78
Spices	1.86	1.97
Non-competitive spices	2.37	4.98
Tea	1.75	2.03
Drugs, crude natural	4.22	5.34
All other products	1.96	2.52
Selected non-agricultural imports	15.23	13.00
Fish	14.11	11.80
Agricultural chemicals	0.28	0.35
Farm machinery	0.43	0.46
Tobacco, manufactured	0.09	0.22

neighboring China proper, likely will continue promoting consumption growth, particularly growth in consumption of high-value products. High-value products will then remain Hong Kong's most important agricultural imports.

Other factors besides rising incomes and changing diets are also likely to continue supporting growth in high-value product import demand. These include: continued encroachment of other uses on Hong Kong's available agricultural land, expanded Western-style marketing, restaurant and fast-food growth, tourism, improved refrigeration techniques that lower prices, greater container capacity, enlarged or rebuilt port facilities, and expanding acceptance of frozen foods. And while a slowdown in growth of population expected in Hong Kong itself may weaken future import demand there, big gains in incomes and population in China proper may encourage Hong Kong to import more for re-export to China.

But if the joint agreement that returns Hong Kong to China July 1 is altered, and Hong Kong fails to retain its duty-free, commercially oriented economy, then Hong Kong's agricultural imports are more likely to decline, if for no other reason than a reduction in re-exports to China.